

May 21, 2002

Commissioner Robert Laurie
Commissioner Robert Pernell
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

RE: DISTRIBUTED GENERATION STRATEGIC PLAN

Dear Commissioners:

Cummins West Inc., a distributor of Cummins Inc. congratulates the Commission and its staff for a well-written report that deals incisively with the barrier and deployment issues surrounding distributed generation (DG). The Commission's investigation is welcomed at a time where without a clear policy direction and subsequent implementation of appropriate actions, the future of clean DG will be in question.

Recent actions by the State to stabilize its electricity industry leave in doubt the role of DG and Combined Heat & Power (CHP) in California. While the legislature, regulators and the DG Community have made some significant strides, without reasoned and sustained action, the many benefits of clean DG and CHP -- consumer choice, power system robustness and flexibility, environmental enhancement and strengthening of the economy -- will not be fully realized.

Having been involved in the myriad issues since the initial investigations by the CEC in 1996 and by many other state and national groups since then, the leadership of California's policy makers is truly noteworthy. The report captures the dilemma facing the increased use and growth of DG and CHP over the next 20 years.

“From a public policy framework, the inability to resolve the regulatory uncertainties runs counter to the desire to encourage business development in the state. That conclusion impacts all aspects of energy policy. However, clear policy direction with respect to distributed

generation policy would at least provide some energy choices to consumers that only have limited energy procurement options (page 19).”

Each of the near, mid and long term goals described in the report are well-focused and achievable. We recommend that the CEC assiduously pursue the goals. In addition, we find the proposed DG State Agency Coordination Group to make eminent sense. We would recommend that this coordination group be expanded to include ratepayer, environmental and industry groups. The CEC or the Governor’s Office of Planning and Research are logical choices to lead this effort. In many respects, this expanded group would continue the early efforts of CADER. The government-industry partnership would be revived to dissect issues and recommend actions.

We welcome again the leadership of the California Energy Commission and look forward to working with the Commissioners and Staff on the implementation of its DG Strategic Plan.

Sincerely,

Eric R. Wong
General Manager
Combined Energy Systems

Enclosed (Specific Comments)

SPECIFIC COMMENTS

Cummins West, Inc.

1. The sub-title "Internal Combustion Engines" refers to reciprocating engines (page 4). This title should be changed to "Combustion Turbines."
2. The report (page 7) describes the efforts of CADER. Based upon my leadership as CADER's Chair from its inception in October 1996 to October 1998, I offer the following "history."

In 1998, CADER's leadership acted upon the *Blue Print for Action* that was published in its Collaborative Report and Action Agenda (January 1998). Three initiatives were pursued.

- a. Requested that the Public Utilities Commission initiate a rulemaking on distributed generation. Following Spring 1998 meetings with the Commissioners of the PUC and through corresponding efforts of the Office of Ratepayer Advocates, the PUC launched its Scoping investigation in December 1998.
- b. Briefed the Commissioners of the Energy Commission (May 1998) on DG technologies, streamlining permit issues and the need for uniform transmission interconnection contracts, procedures and standards. Foremost among its recommendations was that the CEC should develop the interconnection "troika."
- c. Briefed the Air Resources Board Chairman and Executive staff (Summer and Fall of 1998) on the need for equitable treatment of distributed generation from an emissions perspective. These efforts led to the CARB study, "Air Pollution Emissions Impacts Associated with Economic Market Potential for Distributed Generation in California (June 2000)." In many respects this study laid the basis for the CARB DG Emissions regulatory proceeding (January - December 2001) required by Senate Bill 1298 (Statutes 2000).

3. The following discussion on page 19 is not on point.
"The financial fallout surrounding the California energy crisis has created new barriers for the distributed generation community. Among the myriad of energy-related events affecting California during calendar years 2000 and 2001, a key issue impacting the distributed generation market is the recent decision by the CPUC to suspend direct access. Suspension of direct access effectively removes an important benefit from potential users of distributed generation: the ability to sell excess power to retail customers. Without a retail market to supply, a DG user

does not have any incentive to oversize a system and sell excess power to retail customers. Ironically, even though options still are available to sell excess power in the wholesale market, wholesale customers no longer have an incentive to do so since excess power is now readily available on the spot market.”

Comment: ABX1 1 (Keeley, Ch. 4, Stats. 2001) suspended direct access, and provided that the effective date would be determined by CPUC. Pursuant to ABX1 1, the CPUC suspended direct access as of 9/20/01.

Secondly, while the argument that being able to sell excess power to other customers is valid, the concepts of direct access and self-generation are indeed separate. Direct access addresses third-party suppliers of wholesale power to end-use customers, primarily commercial and industrial customers. Self-generation is the installation of a generating power source by a customer on its site. It is noted that the CPUC is considering a "departing load" fee for self-generation customers in order to help recover DWR power costs.

END